

FDIC State Profile

Winter 2004

Puerto Rico and the U.S. Virgin Islands

Puerto Rico's employment growth was stable in third quarter 2004, while the U.S. Virgin Island's (USVI) employment growth was still slightly negative.

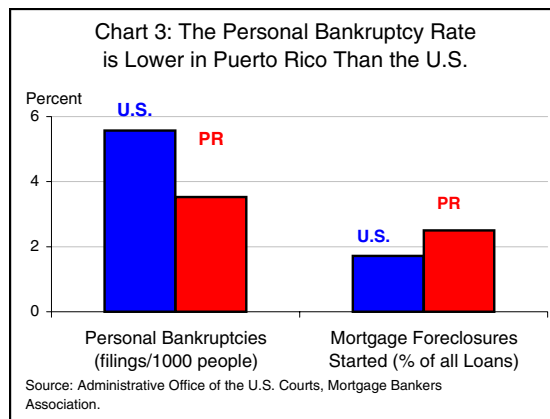
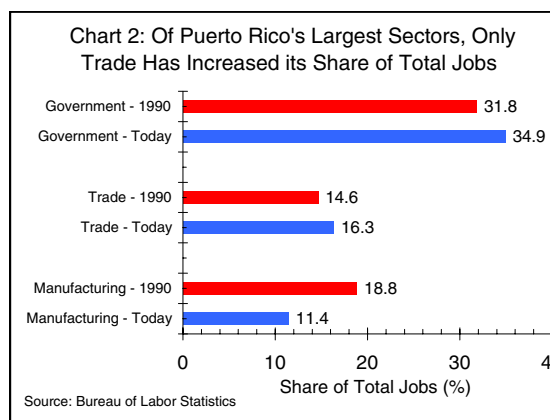
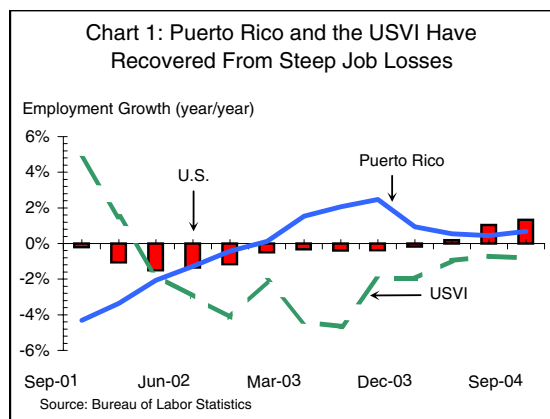
- Puerto Rico's job growth has recovered following job contraction the prior year and is growing at a low pace. A recovery in tourism has helped the USVI constrain job losses (See Chart 1).
- **Caguas, Mayaguez, and San Juan** experienced job growth in third quarter 2004. San Juan is poised to gain from increasing tourism activity and pharmaceutical manufacturing jobs. **Caguas** also has been adding pharmaceutical jobs and some retail and professional jobs. To offset job losses in manufacturing, **Mayaguez** has attempted to reposition itself as a tourism center and has added professional service jobs.
- Intense competition from Central American and Pacific Rim countries for textile jobs has constrained the employment outlook in **Ponce** and may hinder future growth.

Puerto Rico's retail sector has grown, but average salaries are lower than in manufacturing and government.

- Since 1990, job growth in trade (retail and wholesale) has helped to offset employment declines in Puerto Rico's manufacturing and government sectors (See Chart 2). The average salary of a retail worker, however, was \$14,000 in 2003, roughly half the \$28,000 average salary for a manufacturing worker and \$26,000 for a government employee. Moreover, unlike manufacturing and government jobs, many retail jobs are part-time without full benefits.

Puerto Rico's personal bankruptcy rate has improved since 1999.

- Historically Puerto Rico's per capita bankruptcy rate has trailed that of the U.S., and a decline in the rate in 2004 reflects, in part, a strengthening economy (See Chart 3). The average consumer loan delinquency rate has declined among local institutions, but continues to remain above the U.S. average.
- Mortgage foreclosures in Puerto Rico historically have been higher than the U.S. average and remained higher



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in 2004. Residential mortgage loan delinquency rates declined slightly in third quarter 2004, but like consumer loans, remain above the U.S. average.

Tourism, a key economic driver in Puerto Rico and USVI, has improved.

- The tourism industry is a key driver of the Puerto Rico and USVI economies. The U.S. and global economic rebound has boosted demand for business and leisure travel and has helped increase hotel occupancy rates to both destinations (See Chart 4).
- An improving world economy should translate into continued gains for Puerto Rico and the USVI tourism industry into 2005. In addition, unlike Florida, Puerto Rico's lodging sector did not sustain serious damage during the 2004 hurricane season.

Puerto Rico is more vulnerable to oil price increases than the U.S. mainland.

- Higher oil prices are likely to have a more serious affect on Puerto Rico than the mainland because the island relies completely on oil imports. Crude oil produces 70 percent of Puerto Rico's electricity (down from 98 percent), compared with less than 5 percent for the U.S.¹
- Energy analysts estimate that a \$10 per barrel rise in the price of oil would increase Puerto Rican energy costs \$750 million annually, approximately 1 percent of the Puerto Rican gross product. Comparatively, a similar price increase would translate to an estimated one-half percent of U.S. GDP.

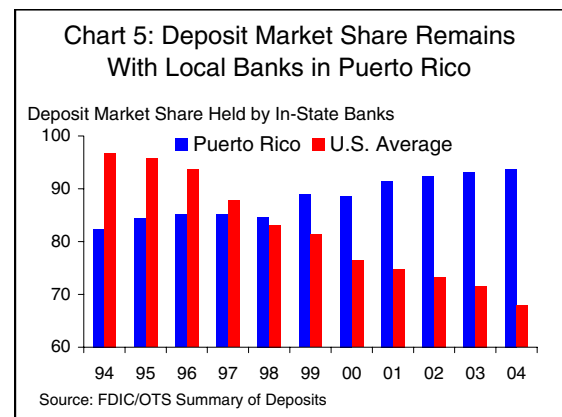
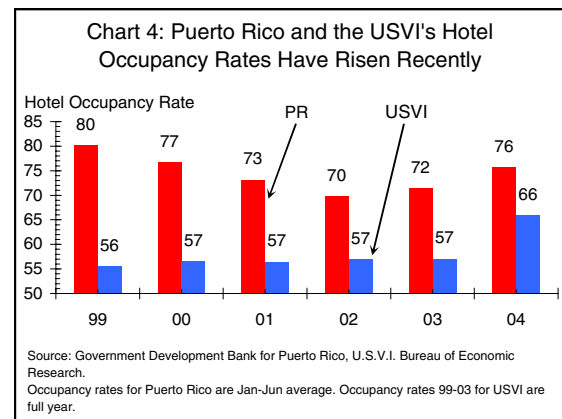
Insured institutions headquartered in Puerto Rico and the USVI reported stable profitability in third quarter 2004; however, funding costs are on the rise.

- Return-on-assets was essentially unchanged in third quarter 2004, largely the result of little change in the net interest margin.² Increased asset yields were offset by higher funding costs. Funding costs increased for the first time in two years in third quarter 2004 following the rise in short-term interest rates.
- Puerto Rico and USVI banks rely more on non-core funding than do mainland banks, in part because a greater percentage of the population is considered "unbanked." Because non-core funding typically is more sensitive to changes in interest rates in the short-term than core deposits, funding costs of local institutions may increase more quickly than for U.S. mainland banks that hold larger core deposit bases. To increase access to core

deposits, some local institutions are expanding outside Puerto Rico.

Local banks remain deposit market share leaders in Puerto Rico.

- Deposit gathering in Puerto Rico is very competitive as local banks have a much greater deposit market share than the U.S. average (See Chart 5). During the past ten years, several large mainland banks have exited the market while local institutions have increased market share.
- Similar to nationwide trends, banks are adding branches in Puerto Rico. Since 1994, the percentage increase in the number of branches has been on par with the U.S. average. Puerto Rico's ten-year growth rate for branches ranked near the mid-point among all U.S. states.



¹Luis A. Ramos and John McPhaul, *The Impact of Oil Caribbean Business*, October 7, 2004, p. 50.

²Includes FDIC-insured institutions headquartered in Pennsylvania excluding banks less than three years old and credit card banks, unless otherwise noted.

Puerto Rico at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	12	13	14	14	14
Total Assets (in thousands)	90,428,495	76,301,306	64,744,199	55,568,783	50,690,344
New Institutions (# < 3 years)	0	0	0	1	1
New Institutions (# < 9 years)	1	3	3	3	3
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	6.91	6.52	6.69	6.78	6.55
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	4.31%	5.57%	5.40%	5.56%	5.32%
Past-Due and Nonaccrual >= 5%	5	7	9	10	9
ALLL/Total Loans (median %)	1.33%	1.52%	1.18%	1.32%	1.33%
ALLL/Noncurrent Loans (median multiple)	0.59	0.45	0.37	0.47	0.49
Net Loan Losses/Loans (aggregate)	0.54%	0.67%	0.94%	0.97%	0.91%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	1	0	3	1	0
Percent Unprofitable	8.33%	0.00%	21.43%	7.14%	0.00%
Return on Assets (median %)	1.37	1.08	0.99	1.01	0.98
25th Percentile	1.00	0.81	0.42	0.76	0.64
Net Interest Margin (median %)	3.22%	2.95%	3.36%	3.77%	3.89%
Yield on Earning Assets (median)	4.96%	5.43%	6.52%	7.85%	8.67%
Cost of Funding Earning Assets (median)	1.94%	2.40%	3.31%	4.53%	5.13%
Provisions to Avg. Assets (median)	0.35%	0.43%	0.43%	0.37%	0.46%
Noninterest Income to Avg. Assets (median)	0.59%	0.53%	0.57%	0.52%	0.65%
Overhead to Avg. Assets (median)	2.02%	2.14%	2.47%	2.34%	2.42%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	96.08%	92.17%	90.79%	91.26%	96.17%
Loans to Assets (median %)	54.97%	54.05%	56.60%	58.43%	61.49%
Brokered Deposits (# of Institutions)	9	10	11	11	11
Bro. Deps./Assets (median for above inst.)	11.06%	12.39%	15.76%	10.08%	6.03%
Noncore Funding to Assets (median)	57.50%	60.91%	60.34%	62.05%	62.59%
Core Funding to Assets (median)	28.19%	26.25%	28.11%	28.06%	30.18%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	11	12	13	13	13
National	0	0	0	0	0
State Member	1	1	1	1	1
S&L	0	0	0	0	0
Savings Bank	0	0	0	0	0
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
San Juan-Bayamon PR PMSA	9	76,796,585	75.00%	84.93%	
No MSA	2	159,751	16.67%	0.18%	
Mayaguez PR	1	13,472,159	8.33%	14.90%	